

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 3 - HB 1**

March 15, 2015

**SUMMARY OF BILL:** Decreases, from 7.00 percent to 6.75 percent, the state sales and use tax rate on tangible personal property.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$237,452,500**

**Decrease Local Revenue – \$8,363,400**

Assumptions:

- The Department of Revenue reports that, in FY13-14, sales tax collections resulting from the seven percent sales tax rate were approximately \$6,566,990,000.
- Based on the Fiscal Review Committee staff's growth rate estimates for sales tax collections of 5.5 percent in FY14-15 and 4.3 percent in FY15-16, the sales tax collections resulting from the seven percent sales tax rate are estimated to be approximately \$7,226,085,951 in FY15-16.
- Under current law, the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617%  $[(5.50\% / 7.00\%) \times 4.603\%]$ .
- Local revenue pursuant to the state-shared allocation is estimated to be \$261,367,529  $(\$7,226,085,951 \times 3.617\%)$  in FY15-16.
- Net state revenue for FY15-16 is estimated to be \$6,964,718,422  $(\$7,226,085,951 - \$261,367,529)$ . These numbers are assumed to remain constant in subsequent years under current law.

Assumptions related to tax collections under the proposed legislation:

- State sales tax collections derived from the 6.75 percent sales tax rate are estimated to be \$6,968,011,453  $[(\$7,226,085,951 / 7.0\%) \times 6.75\%]$  in FY15-16.
- Assuming that 1.5 percent of the sales tax rate shall not be distributed to local government even after the state sales tax rate decrease, the effective rate of apportionment to local government pursuant to the state-shared allocation under this bill is estimated to be 3.58%  $[(5.25\% / 6.75\%) \times 4.603\%]$ .
- Local revenue pursuant to the state-shared allocation is estimated to be \$249,454,810  $(\$6,968,011,453 \times 3.58\%)$  in FY15-16.

- Net state revenue for FY15-16 is estimated to be \$6,718,556,643 (\$6,968,011,453 - \$249,454,810). These numbers are assumed to remain constant in subsequent years under current law.
- The recurring decrease in state sales tax collections is estimated to be \$246,161,779 (\$6,964,718,422 - \$6,718,556,643).
- The recurring decrease in local revenue pursuant to the state-shared allocation is estimated to be \$11,912,719 (\$261,367,529 - \$249,454,810).

Assumptions related to tax savings and net impact of the proposed legislation:

- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services. Total tax savings are estimated to be \$258,074,498 (\$246,161,779 + \$11,912,719).
- The new state sales tax rate is 6.75 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state shared allocation is estimated to be 3.58 percent.
- The net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on sales-taxable goods and services is estimated to be \$8,709,240  $[(\$258,074,498 \times 50.0\% \times 7.0\%) - (\$258,074,498 \times 50.0\% \times 7.0\% \times 3.58\%)]$ .
- The total recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy on sales-taxable goods and services is estimated to be \$3,549,298  $[(\$258,074,498 \times 50.0\% \times 2.5\%) + (\$258,074,498 \times 50.0\% \times 7.0\% \times 3.58\%)]$ .
- The net recurring decrease in state revenue as a result of this bill, beginning in FY15-16, is estimated to be \$237,452,539 (\$246,161,779 - \$8,709,240).
- The net recurring decrease in local revenue as a result of this bill, beginning in FY15-16, is estimated to be \$8,363,421 (\$11,912,719 - \$3,549,298).

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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